

**BILL #** HB 2260

**TITLE:** income tax credit; home schooling

**SPONSOR:** Johnson

**STATUS:** As Introduced

**REQUESTED BY:** House

**PREPARED BY:** Jake Corey

	<b>FISCAL YEAR</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>EXPENDITURES/REVENUES</b>			
General Fund – Individual Income Tax	\$-0-	\$-0-	See Below
General Fund – Department of Education			

## **FISCAL ANALYSIS**

### **Description**

The bill awards a \$1,500 Arizona income tax credit to any taxpayer who provides home schooling for a child of the taxpayer for at least 6 months of the taxable year. If the amount of the credit is greater than the amount of taxes due, the amount of the claim not used shall be refunded to the taxpayer. The proposed statutory change would apply to tax years starting after December 31, 2003.

Due to language in the bill that is unclear, it is assumed in the analysis below that the tax credit may be claimed for *each* child home schooled and that the credit may only be claimed for students that are *actually* receiving home schooling.

### **Estimated Impact**

The bill would have a separate, distinct impact on General Fund revenues and expenditures. There would be a reduction in state General Fund tax revenues from an increase in the amount of statewide income tax credits. There would be a potential General Fund savings due to reduced K-12 education spending as a result of a decrease in the public school population.

The bill would result in a *known* estimated maximum FY 2005 General Fund revenue decrease of approximately \$27.2 million if all eligible taxpayers that currently provide home schooling to their children were to claim the credit. If the credit caused students to transfer from either public schooling or private schooling to home schooling, there would be an additional *unknown* reduction in General Fund revenues above and beyond the estimated \$27.2 million figure.

This unknown increase has two components. First, revenues would decline if the credit shifted more children from public school to home schooling. This revenue loss, however, would be offset by savings from reduced public school enrollment.

The second unknown revenue impact would be the loss from tax credits if privately schooled children were shifted to home schooling. In this circumstance, there would be no offsetting public school savings.

Excluding the effect of the credit on private school students, the known decrease in revenue of \$27.2 million could be offset entirely if the credit caused 8,500 pupils to be transferred from public schools to home schooling. Shifting 8,500 pupils from public schools to home schooling would save \$27.2 million. Increasing the home school population by 8,500 students would represent a 47% increase in the number of home schooled students. We are not aware of research as to whether a \$1,500 credit would be a sufficient financial incentive for parents to increase home schooling by this magnitude.

(Continued)

## **Estimated Impact (continued)**

To be revenue neutral, the bill would have to cause more than 8,500 pupils in the public school system to shift to home schooling to offset the revenue loss associated with private schoolers.

There would be no impact from the bill in FY 2003 or FY 2004 as the first opportunity for taxpayers to claim the credit would occur in tax year 2004, which would affect FY 2005 revenues and expenditures.

The Department of Revenue believes there would be a decrease in state General Fund tax revenues from the bill, though it does not provide a specific estimate due to some uncertainties in the bill. The department believes the definition of home school in A.R.S. § 15-802(F1) is broad enough to allow parents to claim the credit without actually providing home schooling to their children. For the purposes of this analysis, JLBC Staff assumes that the credit would only be claimed for students actually being home schooled. If the bill allows parents to claim a credit without actually providing home schooling, this could substantially increase the estimated reduction in state General Fund tax revenues.

## **Analysis**

We estimate that about 17,000 pupils are being home schooled during FY 2003. This is based on data from county school superintendents in 5 large counties (Maricopa, Pima, Pinal, Yavapai, and Yuma), that indicate that there are at least 14,000 home school pupils in those areas of the state in the current year. The county data have been derived from home school pupil "affidavit of intent" forms that were filed with county school superintendents as of August 2002, as required by A.R.S. § 15-802(B2). Some county school superintendents, however, believe that "affidavit of intent" counts understate the home school population because of non-compliance with A.R.S. § 15-802(B2). This possibility, plus the fact that all counties are not represented in the 14,000-student estimate, serves as the basis for our assuming that 17,000 pupils are being home schooled in the current year. Based on an assumed annual public school growth rate of 3.2%, we estimate that there will be about 18,100 pupils in home schools in FY 2005.

To arrive at our known estimated maximum FY 2005 revenue decrease figure, we multiplied together 1) the FY 2005 estimated number of home school pupils, and 2) the amount of the credit ( $18,100 \times \$1,500 \approx \$27.2$  million). For this calculation, we assumed a credit could be claimed for each child that is being provided home schooling. (According to Legislative Council, it is unclear from the language in the bill if a taxpayer could claim a credit for each home schooled child, or if the taxpayer could only claim one credit per household, regardless of the number of children within the household receiving home schooling.) Since the credit is refundable, we assume each credit claimed would result in a \$1,500 loss of state General Fund tax revenues.

We assume that the state would save about \$(3,200) for each pupil who left the public schools for home schooling because of the proposed credit. This is because we currently estimate that the state will spend on average approximately \$4,700 per pupil through the K-12 equalization funding formula in FY 2005. Therefore, if the state offered a \$1,500 tax credit for each home school pupil, the state would realize a net savings of \$(3,200) for each pupil who left the public school system ( $\$4,700$  savings minus  $\$1,500$  cost for credit =  $\$3,200$  net savings per pupil). To offset the known estimated maximum revenue decrease from the credit, 8,500 students would have to transfer from public school to home school ( $\$3,200 \times 8,500 = \$27.2$  million). We assume, as above, that the taxpayer would be able to claim a credit for each child receiving home schooling.

We can not determine the impact of the credit on the private school population. Each student who transferred from private school to home schooling would increase the cost of the bill by \$1,500. Since the state would save about \$(3,200) for each pupil who left the public schools for home schooling, approximately 2.1 public school students would need to transfer to home schooling to offset the cost of every 1 private school pupil to do so ( $\$3,200 / \$1,500 = 2.1$ ).

## **Local Government Impact**

Incorporated cities and towns receive 15% of income taxes collected 2 years prior in the Urban Revenue Sharing system. Therefore, the FY 2005 known estimated \$27.2 million General Fund maximum revenue loss to the state could reduce local government revenues by a maximum of \$4.1 million in FY 2007. There would be additional revenue loss from any private school students transferring to home schooling.